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SIPDIS

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SENSITIVE

¶E. O. 12958: N/A
TAGS: ECON ETRD EINV PGOV ZI
SUBJECT: Mutare Exporters Feel Pinch

Sensitive but unclassified.

Ref: 03 Harare 2016

Summary

¶1. (SBU) Once-thriving exporters in the eastern Zimbabwean city of Mutare say the country's overvalued exchange rate has rendered them uncompetitive. From company-to-company, sector-to-sector, their stories have a similar ring of despair. Annualized zimdollar expenses such as labor and energy have increased by as much as 1,000 percent, while U.S. dollar earnings have remained stagnant. Without significant devaluation, these exporters feel they will be unable to hold their operations together. End summary.

¶2. (SBU) Econoff called on five export firms and a timber association representative on a recent trip to Mutare, Zimbabwe's third largest city. The mood in this industrial hub has turned decisively sour since our last report (ref), mostly due to the introduction of the Reserve Bank of Zimbabwe's (RBZ) exchange rate policy in January. We briefly recount their views below:

Timber Production Drops to 1993 Levels

¶3. (SBU) In Mutare's timber sector, we met with Timber Producers Federation CEO Bill Johnstone, Border Timbers Managing Director Irvine Kanyemba and Forestry Company of Zimbabwe Managing Director Joseph Kanyekanye. Johnstone, who represents 18 timber firms, said RBZ Governor Gideon Gono's introduction of the auction exchange rate in January dealt his sector a "double whammy." With the RBZ more energetically enforcing an overvalued official exchange rate, Johnstone said Zimbabweans abroad have stopped financing local construction, the major domestic wood consumer. Local timber consumption has fallen by 50 percent. At the same time, Johnstone argued that the overvalued exchange rate has made it difficult for member firms to compete internationally, causing exports to plunge. Johnstone forecasts that this year's timber production will be the country's lowest since 1993, with Chile, Brazil and New Zealand capturing most of Zimbabwe's former market share.

¶4. (SBU) Equally worrisome, Johnstone claims the planting of new seedlings is off 35-40 percent since 2000, when the GOZ launched its fast-track land redistribution program. Since Zimbabwe's timber plantations operate on a 25-year cycle, the industry will not begin to feel the impact of reduced raw materials until 2025.

¶5. (SBU) At Border Timbers, which currently exports 8,100 doors per month for sale at Home Depot in the U.S., MD Kanyemba said labor costs have risen 535 percent since last December and now equal those in South Africa. With local suppliers going out of business, Border Timbers often turns to South African firms for glass, glue and other inputs. In fact, the imported component of the firm's doors is 10 percent higher than in 2003 and now comprises 40 percent. With a Z$5600:US$ exchange rate, Kanyemba insists his company is already losing money on each door exported to the U.S. and will eventually have to cut production or raise prices to uncompetitive levels.

¶6. (SBU) Forestry Company's travails are similar. MD Kanyekanye said he has tracked his company's cost-inflation over the past calendar year at 590 percent, more than double the GOZ's official figure of around 250 percent. Until five months ago, Forestry Company exported construction lumber to Weyerhaueser in the U.S., but it has now suspended these exports. Kanyekanye said he spends much of his time trying to unload 25 percent of

his firm to a foreign investor. If it were a partially foreign-owned firm, Forestry Company would qualify for export processing zone (EPZ) status and, as per the RBZ's new rules, it could then escape the mandatory 25 percent revenue withholding (at the nominal exchange of Z$ 824:US$, about one-tenth of the parallel rate).

Costs Explode at PG Glass, Tanganda

¶7. (SBU) Although PG Glass still sends five containers of windshields to the U.S. each month, CEO Washington Kuwana says the firm has fallen "so much into the red, it is unbelievable." Kuwana adds that "things literally changed overnight" after the RBZ began its currency auctions in January. Because of the strengthening operative exchange rate - Z$6500 to 5600:US$ so far this year - PG Glass's revenue has changed little when converted from U.S.- into zimdollars. Yet costs have swollen rapidly since January - labor by 700 percent and electricity by 1,000 percent, according to Kuwana.

¶8. (SBU) Tanganda, which exports 100 percent of its coffee and 90 percent of its tea production mostly to the UK and South Africa, reports even higher cost-inflation. Chief Accountant H. Matanga claims Tanganda's expenses for labor have grown by 1,000 percent, fertilizer by 1,200 percent and electricity by 1,500 percent. It is only because of English and South African brand loyalty that Tanganda has not lost market share, according to Matanga.

Comment

¶9. (SBU) The GOZ will continue to assert publicly that the economy is poised to rebound, thanks to RBZ Governor Gono's policy, particularly as we approach the March 2005 parliamentary elections. From the assembly lines and boardrooms of Zimbabwe's large exporters, however, the vista is different. GOZ cabinet officials are not prepared to confront these facts on the ground. Instead, they belittle exporters as "crybabies" when these firms press for devaluation. When Trade and Industry Minister Samuel Mumbengegwi toured the Border Timbers plant one month ago, CEO Kanyemba said he got into a shouting match with the Minister over the zimdollar's exchange rate. At one point, the Minister told Border Timber's executives that they were not producing enough doors for low-income Zimbabweans and should redirect production away from their high-tech exports and toward more social pursuits. As this strained dialogue suggests, the gulf between government and industry, between ideology and economics, is as titanic as ever.

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